

## **Introduction to the Low Pay and the `Real` Living Wage.**

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# **Low pay and the ‘real’ living wage – a UK and International Perspective**

**by  
Professor Peter Prowse**

**Friday, 09 November 2018**

# This session will

- Define the different concepts of the living wage, and national minimum wage (NMW)
- The classical arguments for a living wage
- Explain the key concepts of the Living wage in the UK and the wider international comparison
- Outline the development of the UK Low pay Commission (LPC) and the relationship to the `Real Living wage`.
- Evaluate exemptions to the `gig economy` to the NMW

# What is the Living Wage?

Derived from US, Australia and UK in 19<sup>th</sup> Century.

Not to be confused with `National Minimum Wage` (NMW) which is set by statutory requirement as a wage floor (WF) by governments. e.g. UK Low Pay Commission (LPC), Hong Kong, This is a `wage floor` enforced by law (with exceptions)

-Not a `subsistence wage` (SW) which is bare physical minima to earn for essentials.

-National Living Wage (NLW) set by a wage floor (WF).

-Accredited Living Wage (ALW) calculated to the cost of living to commit employers to paying the calculated Living Wage as a MIS.

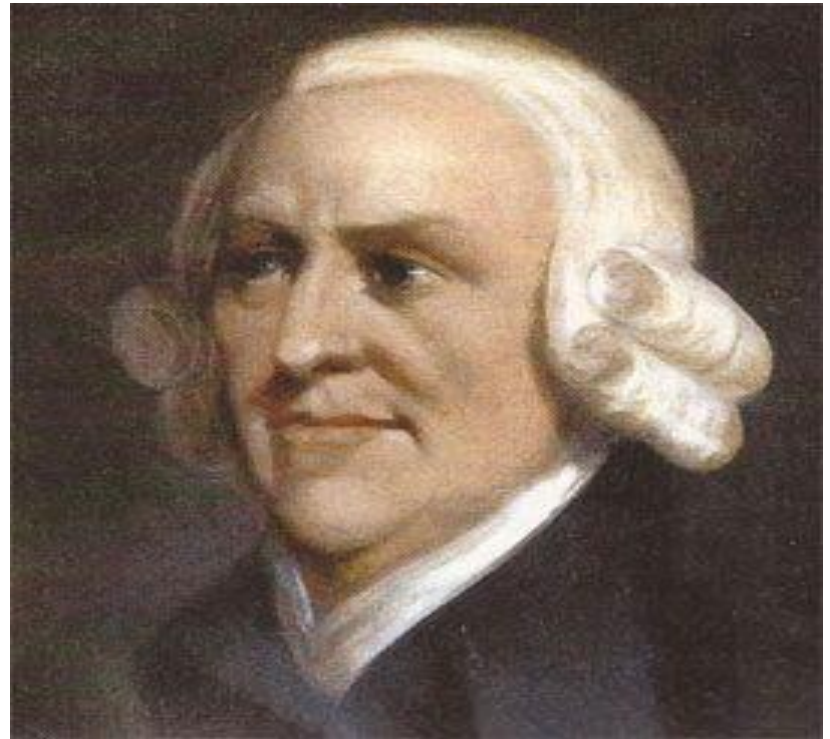
- Minimum income standard (MIS) is based on hours required to survive and researched independently. Based upon University of Loughborough and York in the UK and replicated by teams in Ireland, France, Japan, and in 2016 piloted by Mexico and South Africa. Important to have opportunities to participate in society. Used by Living Wage Foundation.

-Personal tax credits (PTC) regular payments by some governments to working families linked to tax systems.

Source: Hirsch and Valdez (2017) *The Living Wage* pp.xiii-xiv

# Classical argument for Living Wage

***Adam Smith*** (1776; 46) `A man must live by his work and his wages must be sufficient sufficient to maintain him`.



# Winston Churchill-President of Board of Trade Review (1908)

`It is a serious national evil that any class of His Majesty`s subjects should receive less than a living wage in return for their utmost exertions. Where you have no sweated trades , you have no organisation, no parity of bargaining the good employer is cut by the bad, the bad employer is cut by the worst...where those conditions prevail you have not a condition of progress, but a condition of progressive degeneration`.

**This is important for low paid workers *not in unions with no access to collective bargaining* and Corporate Social Responsibility.**



# The International Perspective

Anker and Anker (2017) suggest a LW standard which is context-sensitive (i.e. normative) yet internationally comparable, with their methodology adopted in a number of jurisdictions and advocated by the [Global Living Wage Coalition \(2016\)](#).

The emergence of such global networks (e.g. the [Global Living Wage Coalition in 2013](#), [Project-GLOW \(2016\)](#), and the Living Wage Foundation (LWF) have instigated global and regional discussions to highlight the growing academic/research, policy and practitioner attention to the LW during a time of austerity, rapid workplace change, and political uncertainty ([Living Wage Foundation/ACCA 2017a, b](#)).

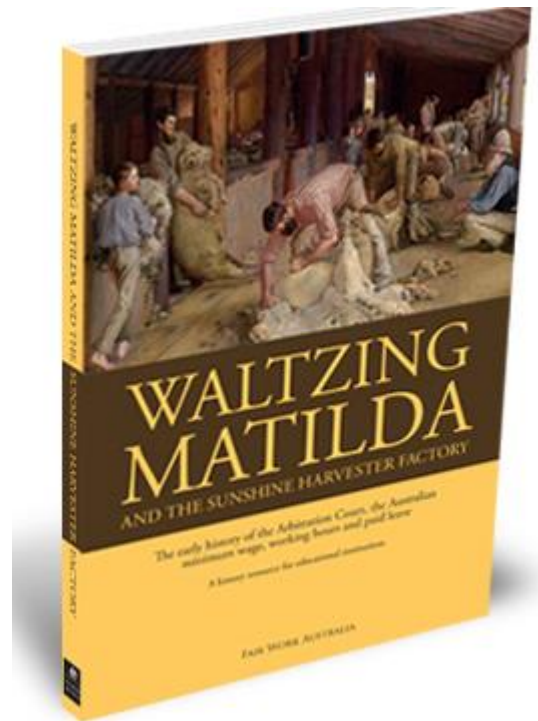
Development of international LW networks and developing body of LW research literature has moved the LW to the centre of labour market and workplace discussions and, is at the centre of initiatives to determine pay in a more ethical and sustainable response to the challenge of low pay for workers.

# The Australian `Harvester Case` 1907

Landmark case that rules should not be enough to ensure wages for survival but cover "the normal needs of an average employee, regarded as a human being in a civilised community" and formed the basis of the Australian minimum wage system.

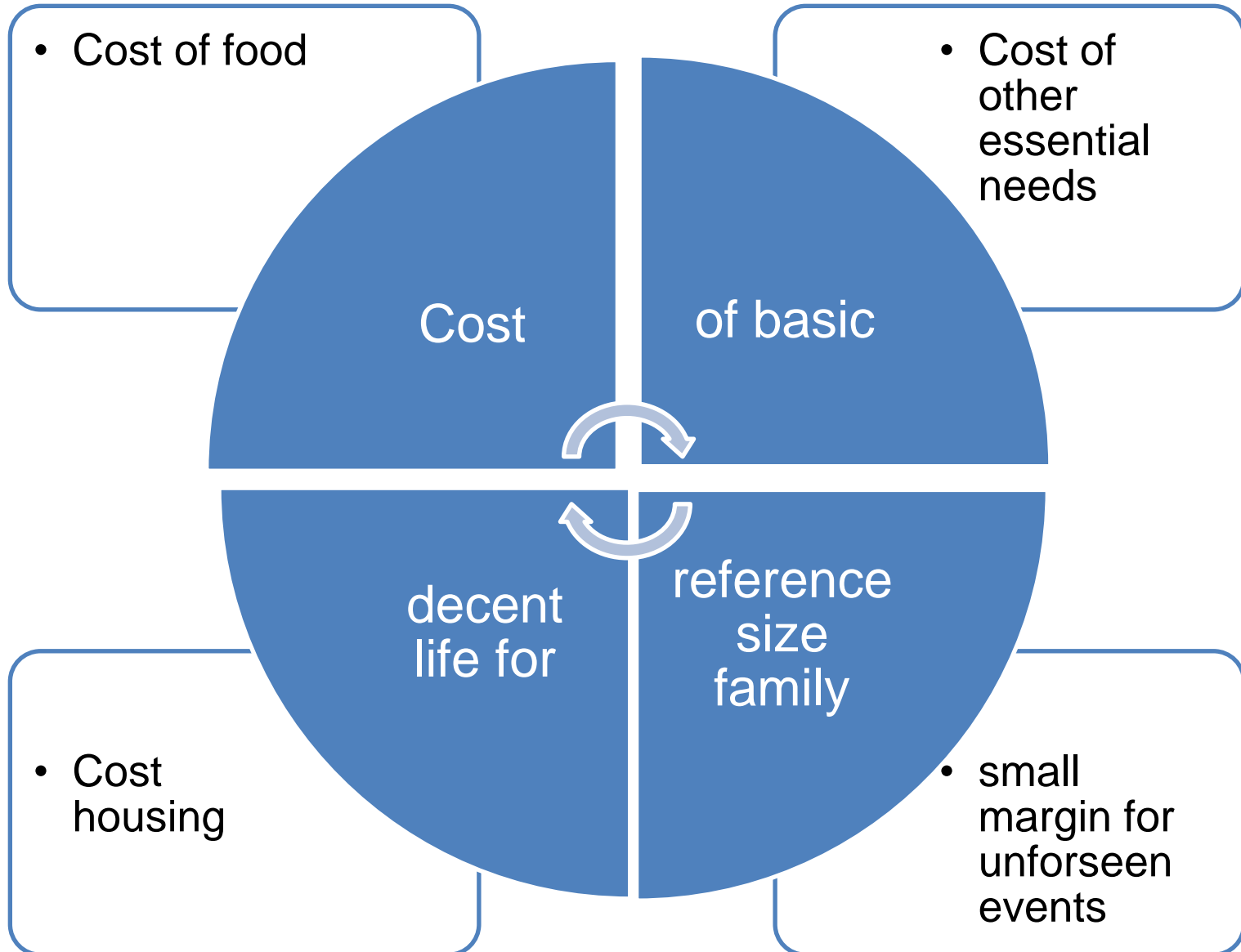
Lord Justice Higgins decided 7 shillings a day or 42 shillings a week was a fair wage for an unskilled labourer.

It was a 'living' or 'family' wage, set at a level for an unskilled labourer to support a wife and three children, to feed, house, and clothe them. By the 1920s it applied to over half of the Australian workforce.

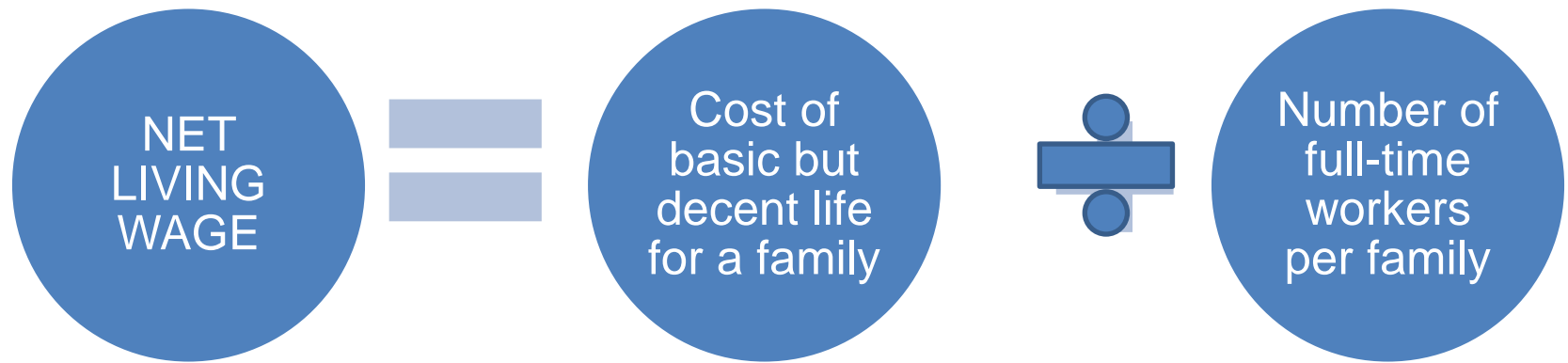




# Method to Calculate LW (Anker and Anker, 2017)



# The Cost of a Basic but decent life (Anker and Anker, 2017)



# From Net To Living Wage To Gross Living Income (Anker And Anker, 2017)



# UK Models of Setting Wage Floors (Prowse and Fells, 2016)

Type of agreement to pay LW includes three methods:

1. **Low Pay Commission National Minimum Wage** (NMW) Compulsory minimum for all employers that will not damage labour demand (Prowse and Fells, *Industrial Relations Journal* 2016a)
2. Government **National Living Wage** for over 25s planned to be 60 per cent of median pay introduced by Government in 2016
3. Voluntary employer standard such as Living Wage Foundation to pay **Real Living Wage** (see Heery in *Employee Relations*, 2017).





FOR  
THE REAL  
COST OF  
LIVING

21%

OF PEOPLE  
IN THE UK ARE  
STILL EARNING  
BELOW THE REAL  
LIVING WAGE

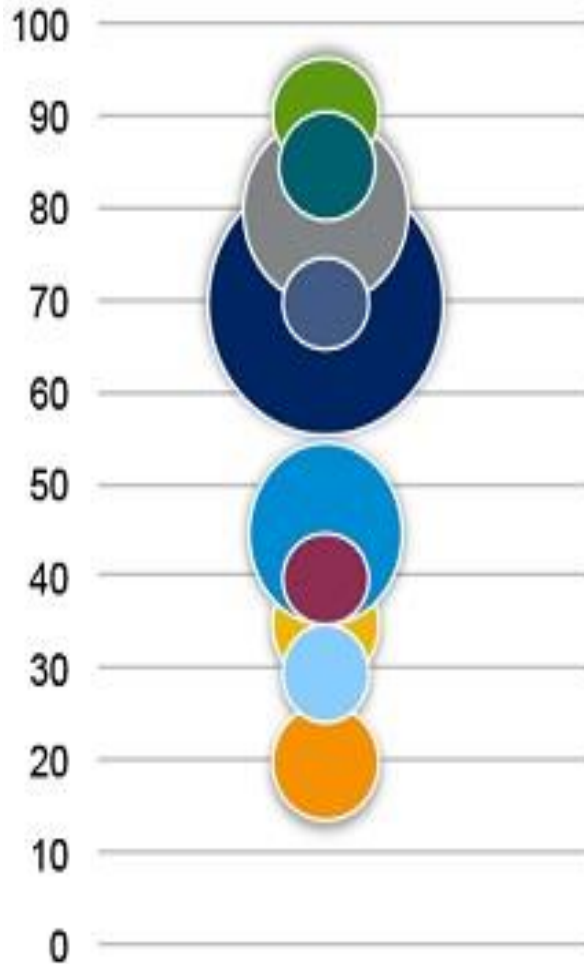
LIVING WAGE RESEARCH FOR KPMG

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# Which Occupations are Paid Below the Real Living Wage?(Schroeders)

Percentage below Living Wage



- Sales and retail assistants (760k)
- Kitchen and catering assistants (370k)
- Care workers and home carers (320k)
- Other administrative occupations (170k)
- Bar staff (170k)
- Elementary storage occupations (160k)
- Waiters and waitresses (130k)
- Retail cashiers and check-out operators (110k)
- Receptionists (100k)
- Teaching assistants (100k)

# The UK Context Of RLW (And Comparisons)

- Move towards 60% of median average income. (different in Hong Kong as used 50% of median average)
- Size of family for standard compares to New Zealand income of one parent full time and another part-time.
- What about lone parent families?
- Near full employment rate in Australia, UK, Hong Kong and New Zealand.
- All citizens receive free Healthcare in UK



# Explaining UK Wage Rates

	THE MINIMUM WAGE <i>Government minimum for under 25s</i>	NATIONAL LIVING WAGE <i>Government minimum for over 25s</i>	REAL LIVING WAGE <i>The only wage rate based on what people need to live</i>
WHAT IS IT?	£7.38	£7.83	£8.75 across the UK and £10.20 in London
IS IT THE LAW?	Statutory	Statutory	Voluntary
WHAT AGE GROUP IS COVERED?	21 and older	25 and older	18 and older
HOW IS IT SET?	Negotiated settlement based on recommendations from businesses and trade unions	A % of medium earnings, currently at 55%, it aims to reach 60% of median earnings by 2020.	Calculation made according to the cost of living, based on a basket of household goods and services
IS THERE A LONDON WEIGHTING?	No London Weighting	No London Weighting	Yes - Separate higher rate for London

**Source: Living Wage Foundation (2018)**



# 1.The Low Pay Commission and National Minimum Wage

End of the twentieth century was a response to similar problems to those which led to the wages councils at the 1908 Wage Boards. An increasingly open economy in terms of both trade and investment was destroying the collective bargaining institutions in the private sector that had developed earlier in the century.

In 1997 New Labour government decided to introduce a single national minimum wage (NMW), applicable to all sectors and regions of the UK started in 1999.

This simplicity would aid enforcement. Lower rates were later added to protect younger workers and apprentices. Otherwise the principles were much the same. The LPC had a social partnership structure, with three representatives of employers and three of trade unions, and three independent members, one of whom was chair.

After a cautious start, and despite a recession from 2008, the NMW has substantially improved in real value since it started in 1999. In relative terms, in April 2015 *its “bite”*, that is the hourly rate for employees aged 21 and over relative to median hourly earnings, had reached 54.5 per cent, its highest level since its introduction (at 45.7 per cent).

Brown, (2017) <https://doi.org/10.1108/ER-04-2017-0072>

# The UK Low Pay Commission (LPC) (Brown, 2017)

- The Low Pay Commission continues to be successful since its formation in 1997. It sets independent statutory rates of pay agreed by governments.
- There is increased political interference. The first threat came when the Labour Party's unsuccessful election manifesto for 2015 promised to fix the NMW by decree.
- The threat became real in 2015, Chancellor George Osborne announced the level at which a new minimum wage for those aged 25 and over, which he called a `National Living Wage (NLW)`, would be introduced from April 2016. Have the Commission, and consequently the NMW, been compromised?
- In 1950s with Wage Councils it supported 15% of low paid workers in sectors (hospitality, retail, cleaning) fostered a transition to the voluntary sectoral collective bargaining that was then the norm although, as it turned out, this rarely was extended.

# Limitations and Challenge to NMW

- In contrast with the NMW, the `Real Living Wage` is fixed and updated with reference to the personal living costs of workers' needs, whereas the NMW's concern of necessity focussed on affordability to the employer.
- ***Living Wage Foundation argued for a voluntary increase for a `real` Living Wage*** As a campaigning tool, it makes sense for the Living Wage to seek to protect decent standards of living; to win acceptance from government, the NMW has had to concentrate on not damaging employment in the economy.
- 2016 George Osborne interfered with LPC and announced a target for the NLW was to be 60 per cent of median earnings by 2020. Although not consulted on this extraordinary invasion of its remit, the LPC was still expected to advise on how both NMW rates and the new NLW would be phased to meet this target.



# Coverage of NMW

- It will cover over 90 per cent for childcare, food processing, hairdressing and retail, and close or up to 100 per cent for hospitality and cleaning.
- The NLW will in effect become the “going rate” for these sectors, a curious legacy for a Chancellor committed to private enterprise. Official data were not yet available for the LPC to evaluate the initial impact of the NLW on employment or hours worked in their second report of 2016.
- Could lead to non-compliance

**But.....**

**Coverage of the NLW is set to rise by over a half to three million workers, or 12 per cent of jobs by 2020.**

**That will put the `bite` in some regions such as Northern Ireland, Wales and the East Midlands close to 70 per cent. Nationally it will be over 70 per cent for firms with fewer than ten employees.**

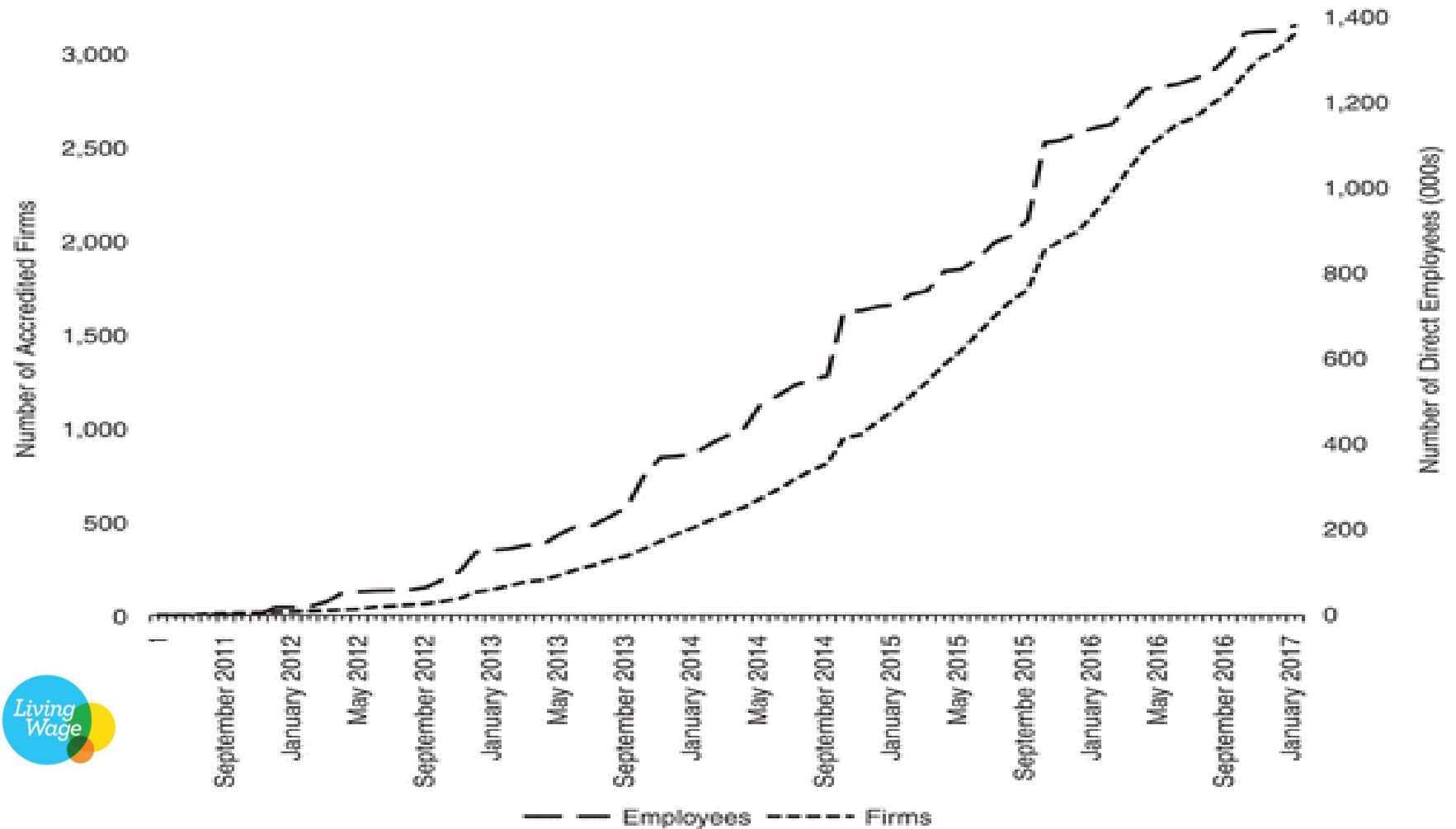


### 3. The Living Wage Foundation



- Established by Citizens UK with partners institution created Living Wage Foundation.
- Calculation of income for decent, modest standard of living with Living Wage Commission.
- Accredited employers use LW accreditation and encourage contractors.
- Directed at employers to join the campaign and commit to RLW launch
- Living wage champions, Business case, recruit and organise by campaigns.
- Voluntary standard

# Living Wage Foundation Accreditation, 2011-2017



Heery, Hahn and Nash (2017) 'The Living Wage Campaign in the UK, *Employee Relations*, 39, 6, pp.800-814.

# Sectors exempt from the NMW (ONS)

**Office For National statistics (ONS) highlights rise in `gig economy` to self employment means 700,000 of 1.2 million self employed workers earn less than hourly rate of NMW. 2.8 million people worked in the gig economy in the 12 months to August 2017, including freelancers and one-person businesses, the research estimated.**





# Case Study-Context of Premier League Wealth

- Premier League football clubs are accumulating extensive wealth, especially elite clubs in the [Deloitte Football Money League 2017](#).
- Star players, managers and executives command [lucrative wages](#).
- The biggest television deal in world football is generating a combined £10.4 billion, divided between all twenty Premier League clubs; ensuring England's leading clubs becoming even wealthier. Premier league revenues rose 12% in 2016/17 to a record £3.6 billion but wages rose 12% to £2.3billion. But not for most employees.....
- Many UK football clubs are embedded in urban communities, some classified as among the most impoverished places in Western Europe

# New Ways to Improve the Real Living Wage

1. Set tender requirement by public contractor to pay at least `Real` LW (Prowse and Fells, 2016a and 2016b)
2. Supply chain company or industry only agree to purchase from suppliers who pay the `Real Living Wage`
3. Community campaigns (usually local with local community coalitions) see and contrast community and union campaigning and Lopes and Hall, 2015 Prowse, Lopes and Fells (2017) .
4. SME independents still pay on based upon higher productivity and performance (e.g, retail Werner and Lim, 2017).

# Comparative Real Living Wage Campaigns

Union-led (GMB, Unison, Unite)

GMB led.

Classic action by worksite meetings, overtime stoppage, local media and lobbying councillors during local elections.

Catering, cleaning and environmental services in local government. for 13,292 direct/8,319 indirect in 11 local authority areas.



Community campaigning

US Baltimore Churches, union, community groups

UK Living Wage Foundation by Citizens UK/University of East London (UEL). Unison support.

Hidden low paid migrant workforce and re-tendering services

UEL became Living Wage Employer.  
Nominated Times Higher Education's  
'Outstanding Contribution to the Local Community'

Thank You  
Any Questions?

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# ***Employee Relations Special issue on the Living Wage Vol. 39, No. 6 (2017)***

- <http://www.emeraldinsight.com/toc/er/39/6> All is Open access
- The Editorial is on  
<http://www.emeraldinsight.com/doi/pdfplus/10.1108/ER-08-2017-0185>
- Contributors include William Brown on the Low Pay Commission
- <http://www.emeraldinsight.com/doi/pdfplus/10.1108/ER-04-2017-0072>
- Paul Sellers (TUC) on UK Trade unions
- <http://www.emeraldinsight.com/doi/pdfplus/10.1108/ER-04-2017-0095>
- Ed Heery and Colleague on Living wage foundation campaigns  
<http://www.emeraldinsight.com/doi/pdfplus/10.1108/ER-04-2017-0083>
- Donald Hirsch on calculating living wage on  
<http://www.emeraldinsight.com/doi/pdfplus/10.1108/ER-03-2017-0048>
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<http://www.emeraldinsight.com/doi/pdfplus/10.1108/ER-03-2017-0053>
- Matt Johnson on implementing the Living wage on local government on  
<http://www.emeraldinsight.com/doi/pdfplus/10.1108/ER-02-2017-0039>
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<http://www.emeraldinsight.com/doi/pdfplus/10.1108/ER-07-2017-0150>
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# ***Employee Relations* Special issue on the Living Wage Vol. 39, No. 6 (2017) continued**

- International perspectives include USA on <http://www.emeraldinsight.com/doi/pdfplus/10.1108/ER-07-2017-0153>
- New Zealand on <http://www.emeraldinsight.com/doi/pdfplus/10.1108/ER-03-2017-0071>
- Denmark on <http://www.emeraldinsight.com/doi/pdfplus/10.1108/ER-03-2017-0049>
- South East Asian ethical trade on <http://www.emeraldinsight.com/doi/pdfplus/10.1108/ER-02-2017-0046>

